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Entrepreneurial Resilience to Innovate and its impact on the Performance of Micro and Small Enterprises: A Proposed Framework

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Abstract

To achieve success in managing micro and small businesses, entrepreneurs must have several characteristics, one of which is resilience. Resilience is a characteristic of entrepreneurs who always monitor the environment to anticipate any changes and develop strategies on how to adapt or turn changes into opportunities. Entrepreneurs of springy power have the ability to innovate in the form of product innovation, process, organization, marketing methods, etc. by utilizing limited resources. The results of the innovations carried out are in the form of product modifications, changes in services to consumers and changes in product prices that are in accordance with changes in consumer behavior and lead to the provision of consumer satisfaction. The innovation output produced by micro and small companies that leads to customer satisfaction can improve performance in the form of increasing market share, sales and profits.

Keywords: Resilience, Innovation, performance.

1. Introduction

In managing a business during the COVID-19 pandemic, micro and small entrepreneurs must have the resilience to maintain their business. After all, they have a role in development like medium and large-enterprises. Micro and small enterprises (MSEs) are the drivers of job creation and economic growth. Sharma and Rautela (2021) state that MSEs are the drivers of growth for every economy, especially in developing countries. The contribution of MSEs to job creation and economic growth in all countries is very valuable, so that it can reduce regional imbalances, increase the equitable distribution of income and national wealth. This class of business is the engine of economic growth for countries around the world. MSEs have fostered an entrepreneurial spirit and spirit and provided job opportunities. Increasing attention from researchers, companies, and governments to the sustainability of MSEs has changed the competitive environment. This causes companies to change the way they innovate, technology, products, processes, and business models.

It is important to understand how entrepreneurs survive in conditions of uncertainty during the COVID-19 pandemic. Establishing this type of business often requires high costs with various obstacles and a high level of uncertain results. Entrepreneurs often make mistakes in making decisions, because of the limited information. Entrepreneurs must keep abreast of changing contingencies by adjusting their goals and strategies. Entrepreneurial resilience can be described as the ability to persevere and quickly overcome adversity, which is an important personal characteristic in managing a business. The resilience of micro and small entrepreneurs is one of the drivers of entrepreneurial success.

Entrepreneurs who have high resilience enable to manage difficult personal and market conditions and volatile situations, and have future orientation. Resilient entrepreneurs try to understand and accept the external environmental conditions that change suddenly and unexpectedly, but they work hard to keep achieving their goals by managing the various challenges. However resilient entrepreneurs have a high tolerance for ambiguity and view difficult situations with a positive attitude rather than fear, apathy or despair. Resilience helps an entrepreneur to manage the unstable and rapidly changing business environment.

The characteristics of entrepreneurial resilience include hardiness, resourcefulness and optimism. Resilient entrepreneurs can explore and exploit opportunities, because when an unexpected event occurs, resilience enables them to drop a venture or modify it to take advantage of the new situation (Manzano and Ayala Calvo, 2013). Korber and McNaughton (2018) identify six conversations or research streams at the intersection of entrepreneurship and resilience: resilience as traits or characteristics of entrepreneurial firms or individuals, resilience as a trigger for entrepreneurial intentions, entrepreneurial behavior as enhancing organizational resilience, entrepreneurial firms fostering macro -level (regions, communities, economies) resilience, resilience in the context of entrepreneurial failure, and resilience as a process of recovery and transformation.

Based on the knowledge possessed by micro and small entrepreneurs even though they have experience in managing businesses, they lack resilience and are disproportionate in facing drastic changes in the external environment. Changing economic conditions, technology, bad weather, terrorist attacks, global pandemics, and geopolitical instability have a significant impact on the structured challenges, success, and viability of micro and small businesses. Decrease in resilience to survive and/or bounce back from drastically changing conditions as a result of lack of crisis planning, limited internal resources, narrow customer base, and low bargaining power (Branicki et al., 2018).

Some empirical evidence shows significant resilience among MSEs in the face of extreme changes such as Battisti and Deakins (2012) noting that MSEs are more flexible and able to respond quickly to environmental changes. This adaptive ability is very important to increase resilience to crises (Battisti and Deakins, 2012) including after the terrorist attacks in the US, they remain committed to Lower Manhattan as a place to do business.

Conceptually, it is necessary to conduct research on a more nuanced understanding of the resilience of entrepreneurship that is more concrete. Much literature has discussed the resilience of entrepreneurship, but empirical evidence suggests that there is little research on how crises affect entrepreneurship and how MSEs plan and respond to extreme events. The level of dynamism in today's business environment has become a huge challenge for entrepreneurs, including micro and small entrepreneurs. These challenges can come from the discovery of new technologies, increasing the number of competitors and others that create many threats as well as opportunities. Companies must be proactive in responding to environmental uncertainty by developing a culture of resilience.

MSEs that are resilient are always monitoring the environment to anticipate any changes and develop strategies on how to adapt or turn changes into opportunities. A culture of resilience is the right tool to operate and succeed in this complex current environment. Sustainable competitive advantage plays an important role in maintaining the resilience and long-term success of MSEs where MSEs must remain focused on identifying unique product strategies, building superior service competencies, increasing intellectual capital. Utilization of this intellectual capital can produce various forms of innovation that result in a sustainable competitive

advantage (Chahal and Bakshi, 2015, and Ahmad, 2018) and MSEs can develop through innovation, creation, and knowledge sharing to create new products, services, and meet customer needs. constantly changing to maintain a sustainable competitive advantage (Arsawan et al., 2020). MSE managers innovate to win the competition, because innovation is a source of creativity and practical solutions in maintaining competitive advantage.

Adam and Alarifi (2021) argue that the important role of innovation in improving the performance of micro and small enterprises and increasing the probability of their survival. They find the positive impact of MSEs' innovation practices on business survival. The COVID-19 pandemic has led to a decline in consumer spending due to declining consumer incomes and high economic uncertainty. As a result, MSEs have been forced to reduce the volume of their business activities and close some branches and shops. Published research has shown the weakness and inability of MSEs to withstand the consequences of the economic crisis.

There is an urgent need for studies to investigate the status of MSEs and their innovation practices in the face of this greatest socioeconomic crisis. Focusing on MSEs has innovative adaptations of actions and strategies, to get through times of crisis such as the COVID-19 pandemic.

Hilmersson and Hilmersson (2021) state that the innovation pace of a firm depends on the capabilities developed. By developing innovation capabilities at an early age, firms are likely to drive market changes instead of being challenged by them. Firms that lag in the innovation process can compensate for this by actively networking for resources and capabilities.

The study begins with a description and argument to investigate the effect of entrepreneurs' resilience on innovation and its impact on MSEs performances. The paper is organized as follows: first, introduction and the second literature review are provided to establish the propositions. Next, the conceptual framework is then presented, the conclusions and limitations of the study

2. Literature Review and Proposition Development.

2.1 Resilience and Innovation

Resiliency is the process of coping with adversity, change, or opportunity in a manner that results in the identification, fortification, and enrichment of resilient qualities or protective factors (Richardson, 2002). Entrepreneurs have different levels of resilience in facing difficulties, especially those from the external environment. Entrepreneurship has discussed the concept of resilience as a response to a difficult or even extreme context and as a personality trait, quality or ability of the entrepreneur (Bernard and Barbosa, 2016).

MSEs generally lack resilience (Branicki et al., 2018) as a result of a lack of factors such as inadequate resources and support systems, limited number of customers, lack of crisis management planning and limited or inability to negotiate (Smallbone et al., 2012) . Micro and small companies are companies that have been affected by the COVID-19 pandemic. Many small entrepreneurs who have resilience try to respond to adverse situations by modifying their processes, products or business models. MSEs face both internal and external challenges. Internal factors include lack of business planning, lack of entrepreneurial skills and mindset, lack of creativity and innovation, and

high levels of stress and burnout. External factors include high levels of competition, difficulty in accessing markets, and lack of external finance (Fatoki, 2018).

Innovation has become a necessity for all contemporary enterprises that want to survive in a world characterized by competition, technological change, and recurring crises (Adam and Alarifi, 2021). Lee and Trimi (2020) state that sustainable innovation is imperative for organizational survival and success in the turbulent market environment of the digital age, especially more so in the current COVID-19 pandemic crisis.

Innovation refers to the use of new technology or new management practices in an organization to achieve a targeted improvement in its operations. From a SME perspective, innovation generally refers to new products or processes that address customer needs more competitively and profitably. Innovative practices carried out by MSEs refer on developing new products, processes, method, or techniques through the use of knowledge, experiences, and ideas.

Improved performance and productivity can be achieved through application of ideas, new discoveries to development of products or new services, managerial strategies, procedures, work methods and technology (Chahal and Bakshi, 2015). Therefore, innovation is an important instrument for adapting to a rapidly changing business environment (Aboramadan et al., 2019) because it is capable of playing an important role to improve organizational performance and maintain its competitive advantage and innovation leads to strategies and the critical factor in determining organizational sustainability. The effects of innovations on firm performance vary in scale from sales, market share and profitability to output and efficiency (Olughor, 2015). However, the speed and quality of innovation is more important in complex and ever-changing business environments (Wang et al., 2016a).

There are several types of innovation mentioned in the literature, such as product innovations, process innovations, marketing innovations, organizational innovations, and technical innovations. Product innovation implies using knowledge and/or technology to create new or modified products or services to improve the enterprise's competitive advantage and its likelihood of success. Process innovation refers to the adoption of new production or placement methods, technique, mechanisms, or procedures for cost reduction or quality improvement (OECD, 2005).

Marketing innovation includes ideas implementation lead the change of features of product, distribution channels of product, promotion and pricing method. Organizational innovation is associated with procedures of administration, which include renewing methods, procedures, systems, and tools to perform tasks or for addressing external environment challenges for operational costs reduction, improved employee satisfaction, or enhanced organizational performance. Technical Innovation is the process of implementing new ideas, related with practical knowledge or experience, into a productive process. Technical innovation results in lower production costs or greater value added. Lower production costs can arise from better production processes. Greater value added can arise from new features or higher quality.

The main goal of innovation in MSEs is to enhance efficient and effective operations, to gain competitive advantage, and gain a larger market share by offering

higher quality products at more competitive prices and entering promising markets. The innovations lead to lower costs, enhanced productivity, and increased sales growth. Innovative MSEs are characterized by rapid and steady growth, higher competence of employees, and holistic plans.

At global market with high competition, technology becomes more central to MSEs performance. The innovativeness may be affected by both internal and external factors. External factors are basically associated with a firm's interaction with its external environment such as other firms, suppliers or buyers. Internal factors include, for instance, a firm's inherited capacities, such as skills, accumulated experience and prior related knowledge of its workforce, organizational structure, communication network, R&D efforts, as well as the ability to respond appropriately to the intrinsic motivation of its employees

Resilience is positively linked to innovation, which is one of the attributes of successful entrepreneurship. High growth firms tend to be a rational consequence of innovation. Growth is a proxy for entrepreneurial success (Fatoki, 2018).

Entrepreneurs have some characteristics which include open mindedness, need for achievement, risk taking and internal locus of control. They are resilient entrepreneurs that engage to work hard to achieve their goals and quickly adapt to changes in order to take advantage of opportunities. Bullough and Renko (2013) found that resilience helps entrepreneurs to manage business failure and helps re-entry into entrepreneurship. Resilience is specifically relevant for entrepreneurial intentions in times of adversity.

Resilience is positively linked to innovation, which is one of the attributes of successful entrepreneurship. High growth firm as a proxy for entrepreneurial success is a rational consequence of innovation. A resilient entrepreneurs change its portfolio of innovation to adapt to changing environmental conditions. Markman, et al (2005) examined the relationship between resilience and innovation of SMEs. The results indicate that there is a significant positive relationship between innovation as measured by idea management capability, strategic management capability, and knowledge management and resilience. A resilient entrepreneur with self-efficacy and entrepreneurial pursuits has driven him to innovate.

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measured by idea management capability, strategic management capability, and knowledge management and resilience. A resilient entrepreneur with self-efficacy and entrepreneurial pursuits has driven him to innovate. In this unprecedented time of isolation, despair, and economic hardship, organizations need to be extra nimble, resilient, and purposeful, indicating the urgent need of effective innovation (Lee and Trimi, 2021). Bamiazi and Kirchmaier (2014) attribute resilience in small businesses to a tendency for their leaders to respond to challenging trading environments by embracing higher risk strategies like product innovation rather than the more prosaic retrenching approaches.

Smallbone et al. (2012) revealed that many small firms are vulnerable to changes in circumstances over which they have no control, they show underlying resilience and a high level of adaptability and flexibility. They show how the types of adaptive behavior observed impact on business performance. While the recession might impact unevenly on small and large firms and industries, it is the individual experiences of recession-related effects, and consequently the adaptive capability of the firm that influence business performance. This confirms the importance of flexibility and adaptability in small businesses, which is emphasized in the resilient view. This means that small firms per se are neither vulnerable nor resilient: some are vulnerable, while others are resilient. How small firms cope with the impact of the global recession depends to a considerable extent on the strategy pursued, although strategic options are influenced by the position of the firm at the onset of recession. However, there is no 'one-size-fits-all' adaptation strategy.

2.2. Innovative and Firm Performance

Innovation is important for micro and small companies in order to create survival during the COVID-19 pandemic crisis and improve company performance under normal conditions. Innovations made by companies can be in the form of innovations: products, processes, organizations, marketing, human resources, and so on. The purpose of innovation is to generate competitive advantage, so that companies can improve their performance in a sustainable manner. For micro and small businesses, implementing innovation activities is not an easy activity as a result of the many limitations they have. However, they still believe that innovation is a very important activity to create a competitive advantage for them. They keep trying to do innovation activities with very limited resources. Small and micro firms encounter various problems within the frame of realizing innovation processes. In particular, limited financial resources, a lack of time as well as knowledge may cause disadvantages with respect to larger firms. Furthermore, huge difficulties concerning capabilities in the areas of marketing, distribution and sales, could be identified, which may increase the risk of innovation failure dramatically (Hutter, et al., 2013).

It is essential for SMEs to overcome the "liability of smallness" that restricts their ability to innovate successfully. Previous studies support the idea that the open innovation approach can offer promising ways for small firms to overcome their difficulties and increase their innovation success and profitability, and therefore ensure their competitiveness and survival (Gassmann et al., 2010; Hotho and Champion, 2011). Innovation allows SMEs to

achieve sustainable competitive advantages and company growth. Innovation includes product innovation that is important to maintain market share and process innovation that is important to maintain competitive prices level, and managerial innovation that is important to maintain a flexible and durable organization (Auken et al., 2008).

Companies have ability to acquaint market information from customers, competitors, and other operators and to respond on it properly by giving them innovative products and services. Prifti and Alimehmeti (2017) found Innovation did not prove to be as strong determinant of performance as expected. They argue that literature puts forth a great inconsistency regarding to size and innovation and firm performance. In case of innovation, the source of inconsistency is variable measurement, whether it is number of employees, logarithm of number of employees, or revenue, etc.

Companies must be market-oriented, because market orientation can be a tool for them to build competitive advantage and combined with organizational capabilities, market orientation can improve company performance (Morgan and Vorhies 2009). Innovative behavior acts on innovation output thus having a positive and significant effect on business performance (Omri 2015). Market orientation is an important determinant of business performance. However, to reap its benefits, managers need to complement it with marketing performance measurement (MPM), the level and focus of which vary across firms (Frösén et al. 2016).

A firm performance is related to the ability of the firm to gain profit and growth in order to achieve its general strategic objectives. It is a consequence of the interaction between actions taken in relation to competitive forces that allow the firm to adapt to the external environment, thereby integrating competence and usefulness. This implies that SMEs become very competitive in an emerging market when they give importance to innovative activities that build their reputation in the market environment. Essentially, the key reason for innovativeness is the desire of firms to obtain increased business performance and increased competitive edge (Olughor, 2015).

Firms invest in new technology if they perceive an opportunity to earn a profit. Innovation can lead to increased market share, greater production efficiency, higher productivity growth, and increased revenue and enables to offer greater variety of differentiated products that can improve financial performance. Production of new products or processes strengthens a firm's competitive position, but only if the innovating firm can defend its position against rivals. Alternatively, the process of innovation enhances the firm's internal capabilities, making it flexible and adaptable to market pressures. Innovation was more important to achieving a competitive advantage to high technology firms than low technology firms. These results support innovation as being important to a firm's sustainable competitive advantage (Auken et al., 2008).

The introduction of novel product and market innovations appears to be associated with the use of more or less freely accessible information sources. The findings also indicate that the introduction of novel product, process and market innovations is positively associated with firms' growth. None of the types of innovation studied was found to have a positive relationship with firms' profitability (Varis and Littunen, 2010).

Terziovski (2010) survey data from a sample of 600 Australian SMEs, and found that SMEs are similar to large firms with respect to the way that innovation strategy and formal structure are the key drivers of their performance, but do not appear to utilize innovation culture in a strategic and structured manner. This study therefore concludes that SMEs' performance is likely to improve as they increase the degree to which they mirror large manufacturing firms with respect to formal strategy and structure, and to which they recognize that innovation culture and strategy are closely aligned throughout the innovation process.

Tuan et al. (2016) concluded that there are positive effects of process, marketing, and organizational innovations on firm performance in supporting firms. The higher the level of innovation activities is, the greater the innovative performance is, which means the larger level of process, organization and marketing innovation activities are the higher level of innovative performance are likely to be. The higher level of process, organization and marketing innovative performance, the better level of firm performances is likely to be.

Nwankwo and Ezeibe (2021) concluded that innovation has significant influence on financial performance of small and medium scale enterprises in Anambra State. The study contends that government should encourage innovative SMEs development through the provision of incentives to SMEs and standing as a guarantor for loans given to aspiring entrepreneurs and innovators.

Rezart and Alimehmeti (2017) investigate the market orientation relation with innovation and firm performance by analyzing a sample of 99 companies operating in Albania and concludes that Responsiveness, as a market orientation component, proves to be a good determinant of innovation and firm performance, despite the weaker effect it has on innovation rather than performance. Recapping, intelligence generation strongly affected intelligence dissemination, and intelligence dissemination responsiveness on information gathered. In other words, it means the ability to acquaint market information from customers, competitors, and other operators and to respond on it properly by giving them innovative products and services.

3. Conceptual Framework.

Micro and small companies as part of national companies also play a role in the economy, especially in creating jobs. They must stay alive and if possible, they must develop and become middle class companies, so that their contribution to the national economy will increase. During the COVID-19 pandemic, these micro and small companies are trying to survive despite facing many difficulties such as changes in consumer purchasing patterns from offline to online purchases, decreased consumer income, limited supply of raw materials and merchandise, limited financial resources, and so on. One of the characteristics that must be possessed is the company's resilient style where with the company's resilience, the company is able to adapt to various changes and turn challenges into opportunities. Entrepreneurial resilience is the ability to persevere and quickly overcome adversity, and is an important personal characteristic in entrepreneurship. They need to be more flexible and better able to respond quickly to environmental changes. With these characteristics, micro and small entrepreneurs can make positive changes for the company through innovation

activities. Various breakthroughs through small innovation activities must be carried out by micro and small companies. These innovations include product innovations, process innovations, marketing innovations, organizational innovations, and technical innovations.

The results of these innovations are expected to be able to modify products according to consumer needs, modify services better, use digital technology in company operations such as in marketing products, and so on, so that companies can survive during the COVID-19 pandemic and if possible, for certain sectors, their performance can improve. Based on this, the authors propose a research model framework and propose the following hypotheses.

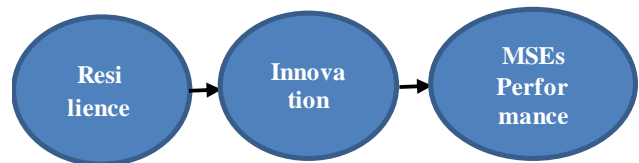


Fig. 1: Proposed Model.

H1: Resilience affects the level of innovation of micro and small businesses

H2: Innovation affects the performance of micro and small businesses

4. Conclusion and limitations

Micro and small entrepreneurs must have resilience in the face of various environmental changes. This resilience indicator is shown by the ability of this entrepreneur to adapt to environmental dynamics. The declining economic conditions as a result of the COVID-19 pandemic are environmental changes occurring in the world that can affect the operations and performance of micro and small businesses. The resilient nature of micro and small entrepreneurs has created creativity in finding ways to operate the company more effectively and efficiently. Entrepreneurs change product marketing methods by utilizing information and digital technology such as promoting products online, selling products online, product delivery through collaboration with freight forwarding service companies where all transactions and administration are carried out online. Likewise, the search for suppliers can be done online and transactions with suppliers can also be done online. Correspondence activities and transaction documents must be pursued digitally (paperless). So, all activities that were originally done manually must switch to be done online. For activities that cannot be done online, the company still does it manually.

This paper has limitations, namely, first, the current paper is conceptual, and hence the developed propositions are not tested empirically. However, future studies can build on our work to empirically analyze these propositions and test their validity in different contexts. second, the proposed model does not discuss in detail the indicators used to measure resilience, innovation and performance of micro and small enterprises.

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